Maricopa County Policy Deposit and Investment Risk Disclosures Policy		Number: A2509 Revision:
Category: Investment Policy		**Issued: 6/05**
Initiated by: Department of Finance	**Approved by:** Maricopa County Board of Supervisors and Special Districts	**Revised:**

A. Purpose

The purpose of Maricopa County and the Special Districts Deposit and Investment Risk Disclosure Policy is for the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures.

Maricopa County and the Special Districts will implement GASB Statement No. 40 for the fiscal year ended June 30, 2005. GASB Statement No. 40 requires the County (that includes the Special Districts) to disclose its deposit and investment risk policies in the notes to the Comprehensive Annual Financial Report (CAFR).

The County Treasurer has an internal investment policy for the investment of monies managed by the County Treasurer's Department (Maricopa County Treasurer Investment Policy - see attached document). The Board of Supervisors or Board of Directors approval of the County and the Special Districts Deposit and Investment Risk Disclosures Policy will include the Treasurer's internal investment policy. The County and the Special Districts investments held outside of the County Treasurer will be addressed within this policy.

Deposits and investments maintained outside of the County Treasurer are reported either as a Special Purpose Agency Fund or in County (and Special District) funds. Deposits and investments held in a Special Purpose Agency Fund cannot be used to support the County and Special District's own programs as the money is held in a custodial capacity.

For informational purposes only, two departments (Clerk of the Superior Court and the Public Fiduciary) have deposits other than checking and savings accounts that are reported in the Special Purpose Agency Fund. The Clerk of the Superior Court reports many depository accounts (certificates of deposit and money market accounts) that are invested per court order. Meaning, the court has ordered that monies deposited with the Clerk of the Superior Court be invested in an interest bearing account. These accounts are accounted for separately rather than commingled with other interest bearing accounts. Based on the court order and the amount of the deposit, the Clerk of the Superior Court generally invests the money in either a 30-day certificate of deposit or a money market account.

The Public Fiduciary also has investments that are invested by court order. If an estate is determined to have assets that can be invested, the Public Fiduciary and an independent investment manager will determine an investment objective for their client or estate. A petition for approval of the investment plan is filed with the courts and upon approval; the Public Fiduciary implements the investment plan. The investment plan allows for investments in bond funds, mutual funds, equity funds, etc. The Public Fiduciary manages all accounts in accordance with the Uniform Prudent Investor Act as adopted in 1986 by the State of Arizona. In addition, the Public Fiduciary follows A.R.S. 14-5603(B) for establishing and continuing an estate or investment plan. Depending upon the value of the client assets managed, the Fiduciary Investment Committee (that may include external independent members) will meet with the Public Fiduciary's on a periodic basis to review and monitor estate investments. The investment review process confirms the investment objective, risk/return, diversification and the investment results. Adjustments and rebalancing of the investment accounts are implemented, as appropriate.

The County and the Special Districts are limited to the types of investments and maturities per A.R.S. §35-323 – Public Finances, Money Management, Investing public monies, bidding, security and other requirements. The Public Fiduciary follows A.R.S. §14-5603(B) for investments of estates or investment plans, as approved by court order. The Stadium District follows A.R.S. §35-323 for investments with the provision under A.R.S. §48-4231 that allows the district treasurer to invest monies other than operating fund monies, in eligible investments with a maturity of greater than five years, that mature at the times the fund assets will be required.

GASB Statement No. 40 - Deposit and Investment Risk Disclosures include credit risk (including custodial risk and concentration of credit risk), and interest rate risk. Each area of risk will be discussed along with the County and the Special District's policy.

B. Definitions

Concentration of Credit Risk – The risk of loss attributed to the magnitude of a government's investment in a single issuer.

Counterparty – The party that pledges collateral or repurchase agreement securities to the government or that sells investments to or buys them for the government.

Credit Risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Custodial Credit Risk – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the County or the Special Districts will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the County or the Special Districts will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Federal Deposit Insurance Corporation (FDIC) – A corporation created by the federal government that insures deposits in banks and savings associations.

Interest Rate Risk – The risk that changes in interest rate will adversely affect the fair value of an investment.

Issuer – An issuer is the entity that has the authority to distribute a security or other investment. A bond issuer is the entity that is legally obligated to make principal and interest payments to bond holders. In the case of mutual funds, external investments pools, and other pooled investments, issuer refers to the entity invested in, not the investment company-manager or pool sponsor.

Maricopa County Treasurer Investment Policy – The County Treasurer has established internal deposit and investment risk policies and for the investment of public monies managed by that department.

Special Districts – Special Districts refer to the County Library District, Flood Control District and the Stadium District.

C. Policy

Credit Risk (including custodial credit risk and concentration of credit risk)
Credit risk is the possibility that an issuer of an instrument will be unable to make interest payments or repay principal. Changes in the financial strength of an issuer or changes in the credit rating of a security may affect its value. GASB Statement No. 40 requires the disclosure for the credit quality of the investments as determined by the nationally recognized statistical rating organization (rating agencies). The lowest rating from the rating agencies will be disclosed. Obligations of the U.S.

Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality.

Credit quality ratings will be disclosed for money market funds and bond mutual funds, etc. If the credit quality disclosure is required and the investment is unrated, the disclosure will indicate that fact.

It is the County and the Special District's policy to preserve the principal value and the interest income of an investment against credit risk. The County and the Special District's policy is to invest in only the following debt instruments or as required by the County or the Special District's Bond Trust Indentures:

1. Obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities.
2. Commercial paper must be rated "A1", or better, by Standard and Poor's, or rated "P1", or better, by Moody's Investors Service at the time of purchase.
3. Corporate Bonds must be rated "A", or better, by Standard and Poor's or Moody's Investor Service, at the time of purchase.

<u>Custodial Credit Risk</u> - Deposits are exposed to custodial credit risk if they are not covered by depository insurance (FDIC) and the deposits are:

Depository Accounts

a. Uncollateralized
b. Collateralized with securities held by the pledging financial institution, or
c. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the County's name.

Per GASB Statement No. 40, if the County or the Special District's have deposits at the end of the period that are exposed to custodial credit risk, it will disclose the amount of the bank balances, the fact that the balances are uninsured, and whether the balances are exposed on the basis as described in a, b, or c above.

The County and the Special Districts maintain deposits in outside bank accounts that exceed depository insurance. It is the County and the Special District's policy to collateralize all deposits by at least 101% (A.R.S. §35-323, 10(G)) of the deposits not covered by depository insurance. It is the County and the Special District's preference to have deposits collateralized with securities held by the County or the Special Districts or by its agent in the County or Special District's name. At a minimum, depository accounts will be collateralized by categories b or c, as described above.

Investment securities are exposed to custodial credit risks if the securities are uninsured, are not registered in the name of the government, and are held by either:

Investment securities

a. The counterparty, or
b. The counterparty's trust department or agent but not in the governments name.

If the County or the Special Districts are exposed to custodial risk, it will disclose the investments' type, the reported amount, and how the investment is held. Investments in external pools and in open-end mutual funds are not exposed to custodial risk because their existence is not evidenced by specific securities.

The County and the Special Districts maintain investments in outside accounts that are uninsured and not registered in the name of the County or the Special Districts. These investments are generally related to the County or the Special District's Bond Trust Indentures and include available amounts for construction, debt service, bond covenants, etc. It is the County and the Special District's policy to invest in securities in accordance with the Bond Trust Indenture. Uninsured investments that are not registered in the name of the County or the Special District's will be held and reported as type a or b, as described above.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The County and the Special District's will provide information about the concentration of credit risk associated with the investments by disclosing, by amount and issuer, investments in any one issuer that represents 5 percent or more of the total County and the Special Districts investments. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

Investments held outside of the Treasurer's Investment Pool represent a small portion of the County and Special District's total investments. It is the County and the Special District's policy to invest in securities that preserve the principal value of the investment held outside of the investment pool. Due to the limited investments available under Arizona Revised Statutes and the desire to preserve the principal value, the County and the Special District's investments held outside of the Treasurer's investment pool might have concentrations of credit risk by issuers.

Interest Rate Risk – Interest rate risk is the risk that changes in the interest rate will adversely affect the fair value of an investment. Generally, when interest rates increase, the value of a debt obligation decreases. The effect is usually more pronounced for securities with longer dates to maturity. The County and the Special District's will disclose information about the interest rate risk of the debt investments by using an allowable disclosure method (i.e., segmented time distribution, etc.), as presented in GASB Statement No. 40.

Investments held outside of the Treasurer's Investment Pool represent a small portion of the County and the Special District's total investments. It is the County and Special District's policy to hold investments to maturity, where practical, and avoid any loss on investment resulting from an early sale or retirement of an investment. Additionally, securities should be invested for a shorter duration, where applicable.

D. Related Documents:

Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures, as amendment of GASB Statement No. 3, issued March 2003.

Agenda C-18-06-002-6-00; C-18-06-003-6-00; C-18-06-004-0-00; C-18-06-005-6-00

Maricopa County Treasurer Investment Policy

I. Authority

Arizona Revised Statutes requires the County Treasurer to invest public monies that are not required for liquidity. Investments must be made in accordance with Arizona Revised Statutes 35-323 which specifies a maximum maturity of five years and lists specific eligible investments. The County Treasurer may delegate responsibility for the day-to-day operation of the investment portfolio to a qualified manager. The manager shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this Investment Policy and current Arizona Revised Statutes.

The County Treasurer pursues an active portfolio management strategy giving highest priority to 1) safety of principal; 2) sufficient liquidity to meet the needs of the county, its subdivisions and school districts; and then 3) return on investment. Active management of the portfolio allows the trading of securities in the portfolio. The portfolio manager may not speculate and under normal circumstances must hold to maturity rather than incur a loss in a net trade situation.

II. Safety of Principal

Safety of principal is the foremost objective of the investment program. While there will always be risks associated with investment of public monies, the risk of loss can be reduced by exercising judgment, acting in a reasonable and prudent manner and following this written policy.

A. Interest Rate Risk (Opportunity Loss).

a. The portfolio manager may not be able to invest at a higher rate in a rising rate market if already invested in securities at a yield less than current market. Investments may have to be held to maturity rather than incur a loss of principal in a net trade situation.

b. Market pricing of each specific investment will be done each month as of month-end to determine current market value of the each security as well as the total portfolio market value.

B. Credit Risk

a. Investments in Government Sponsored Enterprise (GSE) agency paper must be senior debt of the GSE and of investment grade with a rating by one or more of the three major rating agencies (Standard & Poor's, Moody's Investor Service or Fitch, Inc.) at the time of purchase.

b. Commercial Paper must be rated "A1", or better, by Standard & Poor's or rated "P1", or better, by Moody's Investors Service at the time of purchase.

c. Corporate Bonds must be rated "A" or better by Standard & Poor's or Moody's Investor Service at the time of purchase.

d. Repurchase Agreement securities used as collateral must meet the same credit ratings as if the security was to be purchased and included in the portfolio.

C. Concentration Risk

a. Due to limitations of Eligible Investments available to the Treasurer by Arizona Revised Statutes and the desire to obtain the best possible return with limited risk, the portfolio may have a concentration of more than five percent of the total portfolio from any one agency.

III. Liquidity

One of the main functions of the portfolio manager is to anticipate the cash flow needs for the county and the various subdivisions, agencies and school districts on a daily basis. Having sufficient liquidity to meet the cash flow requirements will prevent any potential losses due to selling a security before maturity in an unfavorable market.

Maintaining cash and liquid investments that can be sold easily and without a loss is necessary and prudent. Procedures for money transfers, debt service payments and payment of warrants presented daily should be closely adhered to.

IV. Return on Investment

Yield on the investment portfolio, while it is secondary to Safety and Liquidity, provides important income to county agencies, school districts and other clients. Every effort will be made to maximize the return without jeopardizing the principal dollars invested.

The portfolio manager must stay within the policy guideline and statutory mandates and may not speculate or purchase higher risk investments for the sake of yield.

V. Safekeeping

Under Arizona Revised Statute 35-327, the County Treasurer is responsible for safekeeping and accounting for investment securities.

Most securities traded in today's market are delivered as a book entry through the Federal Reserve Bank and held in the account of a Financial Institution. The Treasurer must contract with an eligible financial institution or trust company to hold and account for securities that have been purchased or sold by direction of the portfolio manager.

All securities held in safekeeping must be held and accounted for in the name of Maricopa County Treasurer.

All securities are purchased and sold Delivery vs. Payment through the Treasurer's Safekeeping Agent.

The Safekeeping Agent must provide a report as of the last business of the month of all activity during the month as well as a list of all active securities as of month end. Additionally, market pricing must be provided to the Treasurer as of month end of all active securities held.

VI. This policy is effective immediately and shall remain in effect until amended by the Maricopa County Treasurer or as required by Arizona Revised Statutes.

David Schweikert, Treasurer

June 20, 2005